



CITY OF MOUNT VERNON, MISSOURI

YEAR ENDED JUNE 30, 1999

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 2000-45  
June 15, 2000  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

# AUDIT REPORT



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

June 2000

**Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Mount Vernon, Missouri.**

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The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were either not solicited or bid documentation was not retained for \$53,154 for property and liability insurance; \$17,703 for fuel; \$44,482 for water and sewer supplies; and \$4,500 for a backhoe lease. Some board minutes did not contain documentation of the justification for accepting a bid other than the lowest bid or of sole source procurement situations and the city did not solicit proposals for auditing services.

Formal bidding procedures provide a framework for the economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business.

The city purchased property for \$187,000 without obtaining an independent appraisal.

The city uses the Electric Fund to help finance other city operations. During the year ended June 30, 1999, the city transferred \$400,000 from the Electric Fund to the city's General Fund. Transfers totaling \$212,150, \$100,000, and \$200,000 were also made during the years ended June 30, 1998, 1997, and 1996, respectively. In addition, \$250,000 has been budgeted as a transfer for the year ended June 30, 2000. Transfers from the Electric Fund to the General Fund have been a regular part of the city's budgeting and funding process for many years. In addition, the taxi driver's salary of \$21,000 plus fringe benefits were paid from the Electric Fund.

The Electric Fund, Water Fund, and Sewer Fund are separate accounting entities designed to account for specific city activities. Utility revenues should be used to fund the operations of the respective utilities only.

The city has not performed periodic formal reviews of the electric, water, and sewer rates. City ordinance requires the water and sewer rates to be set at an amount adequate to generate revenues to cover the costs of operation, maintenance, and replacement of the system; however, there is no documentation to indicate the city periodically reviews water or sewer rates to ensure these costs are adequately covered without generating excess revenues.

(over)

YELLOW SHEET

The city has not consistently enforced the ordinance requiring property owners to share the cost of replacing sidewalks.

Procedures have not been established for the enforcement of the building codes ordinance, and inspections are not adequately documented. The position of Building Inspector has not been established by ordinance.

Improvements are needed in the preparation of city budgets. The city approved expenditures in excess of budgeted amounts. Annual financial reports are not submitted to the State Auditor's office as required by state law.

Accounting duties are not adequately segregated, and receipt slips are not issued for some monies received by the municipal court.

CITY OF MOUNT VERNON, MISSOURI

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**CLAIRE C. McCASKILL**  
Missouri State Auditor

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Mount Vernon  
Mount Vernon, Missouri 65712

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Mount Vernon, Missouri. The city had engaged Compere & Robinette, P.C., Certified Public Accountants, (CPA firm) to perform a financial audit of the city for the year ended June 30, 1999. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. Our audit of the city included, but was not limited to, the year ended June 30, 1999. The objectives of this audit were to:

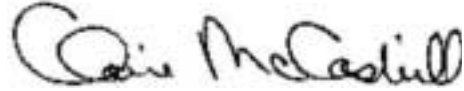
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted auditing standards and included such procedures as we deemed necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Mount Vernon, Missouri.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill  
State Auditor

February 14, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	David Holtmann, CPA
In-Charge Auditor:	Holly Gilstrap, CPA
Audit Staff:	Ted Fugitt
	Troy Royer

## HISTORY AND ORGANIZATION

# CITY OF MOUNT VERNON, MISSOURI HISTORY AND ORGANIZATION

The city of Mount Vernon is located in Lawrence County. The city was incorporated in 1848 as a fourth-class city. The population of the city in 1990 was 3,791.

The city government consists of a mayor and eight-member board of aldermen. The eight board members are elected for two-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at June 30, 1999, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended June 30, 1999</u>	<u>Bond Amount</u>
Neal S. Underwood, Mayor (1)	April 2000	\$ 4,000	\$
Darrel Baldwin, Alderman (2)	April 2000	700	
Anna Ford, Alderwoman (2)	April 2000	700	
Rex Reese, Alderman (3)	April 2000	750	
David Thomas, Alderman (4)	April 2000	450	
Derick Barnes, Alderman (5)	April 2001	600	
Bruce Conway, Alderman	April 2001	250	
B. Thomas Cox, Alderman	April 2001	400	
Della Mieswinkel, Alderwoman	April 2001	250	
W. F. Turk, Police Chief/ City Marshall (2)	April 2000	33,000	
<u>Other Principal Officials</u>			
Jack Swearingen, City Administrator (6)		48,646	
Mary H. Walker, City Clerk		36,000	5,000
Lance D. Welch, City Treasurer		15,000	300,000
Lois Baker, Collector of Revenue		26,400	5,000
Andrew Hager, City Attorney		10,800	
Melvin Owens, Fire Chief (7)		36,150	

- (1) Replaced William Weber who resigned in October 1998. Neal resigned in August 1999 and was replaced by Robert Walster. Robert was reelected in April 2000.
- (2) Reelected in April 2000.
- (3) Norman Jones was elected in April 2000 to replace Rex Reese.
- (4) Replaced Steve Barnes who resigned in October 1998. Dave Eden was elected in April 2000.



- (5) Resigned in August 1999 and was replaced by Robert Steffke. William Weber was elected in April 2000 to complete the last year of the term.
- (6) Retired in October 1999 and was replaced by Charles R. Walker.
- (7) Melvin Owens also worked for the Water Department. Compensation includes \$31,890 for duties related to the Water Department. Appointed temporary full-time Fire Chief in December 1999.

Assessed valuation and tax rate information for 1999 are as follows:

ASSESSED VALUATION	
Real estate *	\$23,346,170
Personal property *	<u>13,344,050</u>
Total	<u>\$36,690,220</u>

\* The city does not levy property taxes.

The city had the following sales taxes; rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	.01	None
Capital improvements	.005	None

## MANAGEMENT ADVISORY REPORT

CITY OF MOUNT VERNON, MISSOURI  
SUMMARY OF FINDINGS

1. Expenditures (pages 9-12)

The city does not have a formal bidding policy. The city purchased property for \$187,000 without obtaining an independent appraisal. During 1995, the city paid more than \$19,000 to a construction company owned by an alderman's father. The board does not adequately review and document approval of disbursements and interfund transfers. Some expenditures did not represent a prudent use of public funds.

2. City Utilities (pages 12-14)

Electric Fund revenues have been used to support general city operations. The city has not performed periodic formal reviews of the electric, water, and sewer rates.

3. Controls and Procedures (pages 14-16)

Accounting duties are not adequately segregated. Improvement is needed in controls over receipts. Board minutes are not signed by the City Clerk and the Mayor.

4. Sidewalk Replacement Program (page 16)

The city has not consistently enforced the ordinance requiring property owners to share the cost of replacing sidewalks.

5. Taxi Service (page 17)

The taxi service has not been established by ordinance and is heavily subsidized by the Electric and General Funds.

6. Building Code (pages 17-18)

Procedures have not been established for the enforcement of the building codes ordinance, and inspections are not adequately documented. The position of Building Inspector has not been established by ordinance.

7. City Contracts (pages 18-19)

The city does not solicit proposals for their depository banking services, and the city does not have an agreement with its depository bank. In addition, the city does not have a current contract with the City Attorney, and invoices for legal services are not sufficiently detailed.

8. Budgets and Financial Reporting (pages 19-21)

Improvements are needed in the preparation of city budgets. The city approved expenditures in excess of budgeted amounts. Annual financial reports are not submitted to the State Auditor's office as required by state law.

9. City Property Records (pages 21-22)

The city does not maintain complete records to account for all property owned by the city.

10. Municipal Division (pages 22-23)

Accounting duties are not adequately segregated, and receipt slips are not issued for some monies received.

CITY OF MOUNT VERNON, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>Expenditures</b>
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A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis:

1. Although it appears the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained for \$53,154 for property and liability insurance; \$17,703 for fuel; \$44,482 for water and sewer supplies; and \$4,500 for a backhoe lease. Some board minutes did not contain documentation of the justification for accepting a bid other than the lowest bid or of sole source procurement situations and the city did not solicit proposals for auditing services.
2. In October 1999, the city purchased a computer from the new city administrator for \$1,500. Bids were not solicited for the purchase. Section 105.454, RSMo 1999 Supp., prohibits financial transactions between a city and an officer or employee of that city that involve more than \$500 per transaction or \$1,500 per year, unless there has been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received.

Formal bidding procedures provide a framework for the economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and the reasons noted why the bid was selected. The bidding policy should also address procedures for opening sealed bids.

- B. In January 1998, the city purchased 22.1 acres of land for the site of the future Missouri Veterans Home for \$187,850. The city purchased the property without obtaining an independent appraisal. As a result, there is less assurance the price paid for the property was reasonable or represented the fair value of the property.
- C. During 1995, the city paid \$19,413, for excavating work enlarging a lake, to a construction company owned by former Alderman Rob Miller's father. Bids could not be located at city hall and board minutes contained no documentation of discussions concerning this transaction. Former Alderman Rob Miller provided bid documentation to the State Auditor's Office related to the project.

City officials should avoid any type of involvement in city decisions that relate to themselves or businesses which their families have an interest in. Discussions and decisions concerning transactions where a potential conflict of interest exists should be completely documented and retained by the city to provide assurance that no city official or relative has profited improperly.

- D. The City Clerk provides the board monthly listings of bills to be paid. Although board minutes make a general reference that the listing of bills is approved for payment, the listings are not signed or initialed by the board members and retained with the official board minutes. In addition, the listings do not indicate from which funds payments are made and do not include some routine monthly payments. Invoices are retained in monthly files, but these invoices are not reviewed by the board members.

To adequately document the board's review and approval of all disbursements, complete listings of bills should be signed or initialed by the board members to denote their approval and retained with the official minutes. The listings should indicate the funds from which individual payments are made. In addition, supporting documentation should be reviewed by the board members before payment is made to ensure all disbursements represent valid operating costs of the city.

- E. The Treasurer periodically transfers capital improvement sales tax monies from the Special Sales Tax Fund to various other funds to reimburse those funds for capital asset purchases. There is no documentation to indicate the board reviews these transactions.

All interfund transfers should be reviewed by the board, and approval should be adequately documented.

- F. Some expenditures did not represent a prudent use of public funds. Expenditures related to employee Christmas parties totaled \$579 in December 1998 and \$700 in December 1999. The city also paid \$774 each of those years for Christmas hams for employees, Planning and Zoning board members, and volunteer firemen. In addition, the city incurred expenditures totaling \$763 in October 1999 for a retirement gift and luncheon for the former city administrator.

The city's residents have placed a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The above expenses do not appear to represent a necessary and prudent use of public funds.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected and procedures for opening sealed bids. In addition, the board should

refrain from entering into transactions with city officials or related parties unless such transactions are properly bid and adequately documented in board minutes.

- B. Obtain an independent appraisal for any property being considered for purchase.
- C. Avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest. Such matters and transactions should be completely documented and retained in city records so the public has assurance that no city official has benefited improperly.
- D. Ensure listings of bills include all disbursements and indicate from which funds payments are made. Approval should be adequately documented by retaining a signed copy of the listing of bills with the board minutes. In addition, the board should review all invoices.
- E. Review and adequately document approval of all interfund transfers.
- F. Ensure expenditures are a prudent use of public funds.

**AUDITEE'S RESPONSE:**

- A.1. *The city has no formal written policy. The City Administrator is preparing a bid policy and procedure for board consideration.*
- 2. *No policy was in effect. The City Administrator requires access to a computer. The administrator reimbursed the city when the statutory requirement was brought to his attention. He had used his personal computer since his date of hiring, without charge, and agreed to continue to do so until equipment is available. The city's computer consultant plans to submit a proposal in June, estimated at \$1,500, plus the cost of a monitor, printer and software.*
- B. *This recommendation will be incorporated into the above referenced purchasing and procurement policy.*
- C. *Former board members advise this was the only bid received and that Board Member Rob Miller abstained from voting on the matter to avoid conflict. The recommendation is so noted.*
- D. *This recommendation has been adopted by the City Clerk and was formally approved by the board at its May 9 meeting. A cut-off date for the receipt of invoice submittals, and the review and signature by the City Clerk, City Administrator (or his designee), and representatives of the board on a three months alternating basis has been adopted. The approved list will then be prepared and disseminated in the monthly board agenda packet on the Friday prior to the monthly meeting for further review by the Mayor and board prior to the meeting.*

- E. *The recommendation is so noted. Interfund transfers hereafter require board approval.*
- F. *A nominal token of appreciation is a common practice among municipalities at Christmas time. This practice builds morale and camaraderie among employees and is considered a prudent and appropriate use of public funds. The recommendation is so noted.*

<b>2. City Utilities</b>
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- A. The city uses the Electric Fund to help finance other city operations. During the year ended June 30, 1999, the city transferred \$400,000 from the Electric Fund to the city's General Fund. Transfers totaling \$212,150, \$100,000, and \$200,000 were also made during the years ended June 30, 1998, 1997, and 1996, respectively. In addition, \$250,000 has been budgeted as a transfer for the year ended June 30, 2000. Transfers from the Electric Fund to the General Fund have been a regular part of the city's budgeting and funding process for many years. In addition, the taxi driver's salary of \$21,000 plus fringe benefits were paid from the Electric Fund.

The Electric Fund, Water Fund, and Sewer Fund are separate accounting entities designed to account for specific city activities. Utility revenues should be used to fund the operations of the respective utilities only. Rates for electric, water, and sewer services should be set to cover the costs of producing and delivering services, repaying bonds, and repairing and replacing equipment. These services should not generate profits to fund other services provided by the city. Funding for the general city operations should not come from utility user fees.

The existing utility rate structure has allowed the city to, in effect, levy an additional tax without a vote of the citizens. Property taxes, sales taxes and other fees can be established or increased; but, these require a vote of the citizens. It appears the city has established a higher than necessary electric rate structure in lieu of increasing general revenues or reducing services provided by the city.

It is prudent to set rates in excess of immediate operating needs to fund future costs of replacing and repairing infrastructure. However, any surpluses should stay in the related fund instead of being transferred to fund general city operations.

- B. The city has not performed periodic formal reviews of the electric, water, and sewer rates. City ordinance requires the water and sewer rates to be set at an amount adequate to generate revenues to cover the costs of operation, maintenance, and replacement of the system; however, there is no documentation to indicate the city periodically reviews water or sewer rates to ensure these costs are adequately covered without generating excess revenues. During the year ended June 30, 1999, the Electric and Water Funds generated net incomes of



\$587,491 and \$84,404, respectively, while the Sewer Fund incurred a net loss of \$306,474.

Electric, water, and sewer fees are user charges which should cover the cost of providing the related services. The city should perform periodic detailed reviews of the costs of providing these services and set rates appropriately. Section 67.042, RSMo 1994, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of such service. Preparation of a statement of costs would allow the city to determine the rates necessary to support current and future operations as well as providing documentation to customers of the rationale behind the rates.

**WE RECOMMEND** the Board of Aldermen discontinue subsidizing general city operations with utility funds and perform periodic reviews of the costs to maintain utility services, and establish rates to ensure revenues are adequate to operate, maintain and replace the utilities. In addition, a statement of the costs to maintain funding of the service should be prepared, as required by state law, before enacting any rate increase.

**AUDITEES RESPONSE:**

- A. *The State Auditor's opinion is so noted (see legal opinion provided by the city's attorney, below). The City Administrator responded that he traditionally requires a true accounting of all receipts and expenditures by separate utility funds so that he can have a handle on operations at all times.*
- B. *The City Administrator has solicited proposals for engineering services and at its May 9 meeting the board approved the continuation of general engineering services by Turner Consulting of Baxter Springs, KS, a second general engineering firm of Archer Total Project Management of Springfield, MO and Finley Engineering of Lamar, MO for electrical engineering services. Proposals for needs assessments and rate studies will be sought for each of the municipal utilities. Statements of costs required to maintain adequate funding for each of the utilities will be prepared in accordance with statute prior to the adoption of any rate increase.*

*The City Attorney provided the following opinion for Part A:*

- A. *It is my opinion that the contract for electrical services with Empire District Electric Company, the transfer from the Electric Fund to the General Fund, and the use from the General Fund for expenditures is legal. I do not find any Missouri Constitutional provision, any State statute, or any court case that prohibit this activity.*

*The City of Mount Vernon, Missouri has been purchasing electrical services from Empire District Electric Company under contract since on or before August 19, 1959. The contract has been renewed, from time to time, with the latest renewal*

*under Ordinance No. 7.36 wherein the City contracted with Empire District Electric Company for electrical service for a period of twenty (20) years from and after March 8, 1988.*

*The City has, from time to time, transferred funds from the Electric Fund to the General Fund and thereafter made expenditures from the General Fund. The Missouri Appellate Courts have consistently held that municipal charges are not taxes; and, therefore, levying utility charges and raising utility would not be prohibited by the "Hancock Amendment". Moreover, Section 67.050, RSMo., specifically provides that "during the budget year, any political subdivision may transfer any unencumbered balance or portion thereof from the expenditure authorization of one department, office, commission, or other classification, to another, subject to such limitations as may be provided by law or charter.*

### **AUDITOR'S COMMENT:**

The Board of Aldermen, as elected representatives, has the responsibility to submit tax increases to a vote of the people.

The net result of the city's current practice is that the citizens of Mount Vernon are paying higher than necessary utility rates to subsidize general city operations. The rate structure includes hidden taxes. As noted above, the city transferred \$400,000 from the Electric Fund to the General Fund during the year ended June 30, 1999 (approximately 13 percent of the Electric Fund's revenue). The \$400,000 transfer represents approximately 24 percent of the General Fund's operating funds for the year ended June 30, 1999. While it is common for municipal governments to provide for a gross receipts tax on utility operations, it does not appear reasonable to expect the utilities to provide a major source of funding for the general city operations.

<b>3. Controls and Procedures</b>
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- A. Accounting duties are not adequately segregated. The Treasurer prepares deposits, records transactions, has the authority to sign checks (only one signature is required), and reconciles bank statements. A similar weakness was noted with DARE monies. One officer is responsible for receiving, recording, depositing, preparing and signing checks, and reconciling bank statements for the DARE Account. In both of these situations, no supervisory or independent reviews are performed.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating cash custody and record-keeping functions. If a proper segregation of duties cannot be achieved, at a minimum, there should be an independent review

of the reconciliations between receipts and deposits, and an independent review of bank statements and bank reconciliations.

B. The following problems were noted related to receipts:

1. Monies are not deposited in a timely manner. Deposits (excluding utility deposits) are only made approximately once or twice per week. Golf course monies were sometimes held several months before being deposited.
2. Monies are not deposited intact. The City Collector occasionally cashes personal checks for employees or other individuals from utility receipts.
3. Checks and money orders are not restrictively endorsed immediately upon receipt. The endorsement is applied by the Treasurer when the deposit is prepared.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be deposited intact daily or when accumulated receipts exceed \$100. In addition, checks and money orders should be restrictively endorsed immediately upon receipt.

C. Board minutes prepared by the City Clerk are not signed. The board minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.

**WE RECOMMEND** the Board of Aldermen:

- A. Adequately segregate duties. If duties cannot be adequately segregated, at a minimum, there should be an independent review of the reconciliations between receipts and deposits and an independent review of bank statements and bank reconciliations.
- B. Deposit receipts intact daily or when accumulated receipts exceed \$100, and restrictively endorse checks and money orders immediately upon receipt.
- C. Ensure board minutes are signed by the City Clerk as preparer and by the Mayor to attest to their completeness and accuracy.

**AUDITEE'S RESPONSE:**

- A. *The process for segregating cash custody and record keeping is being amended to improve internal controls, along with an independent review of each category mentioned in the auditor's report. The board approved a recommendation by the Administrator that requires two signatures on all drafts, including provisions for the office of Mayor to serve*

*as first alternate and the City Administrator to serve as second alternate. Presently, the Mayor serves as an officer of a local bank but has never involved himself in financial matters of the city since his appointment. Because of the Mayor's local bank affiliation, the Administrator will serve as the alternate signatory as long as this affiliation exists.*

- B. Receipts in excess of \$100 are now deposited daily. All monies are otherwise locked in the city vault at the close of the day's business. The city collector no longer cashes personal drafts. Checks and money orders are being restrictively endorsed immediately upon receipt as recommended and the treasurer endorses the document when the deposit is prepared.*
- C. There was a period of time in which the board minutes were not signed by the Mayor and City Clerk. The City Clerk has resumed the practice of having documents appropriately executed before they are filed as a permanent record document.*

<b>4. Sidewalk Replacement Program</b>
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In August 1998, the board authorized the replacement of sidewalks beginning around the town square and extending from the square to the elementary school and the new high school as funds permit. The board adopted an ordinance, as provided for by Sections 88.804 and 88.806, RSMo 1994, requiring property owners to pay one half the costs of replacing the sidewalks. The ordinance provided for payments to be made on an installment basis and for liens to be filed against any properties for which the special assessment was not paid.

As of February 14, 2000, the city had billed 28 property owners a total of \$30,186 for sidewalk replacements. Nine of those property owners have not made any payments and have not requested an installment plan. The city has not taken any action to collect the unpaid assessments which were dated between April 1999 and September 1999 and total \$8,627. To ensure the equitable treatment of all citizens, the board should consistently enforce city ordinances. Unpaid assessments should be followed up and any exceptions should be approved by the board and properly documented.

**WE RECOMMEND** the Board of Aldermen ensure the consistent enforcement of city ordinances and follow up on the unpaid assessments.

**AUDITEE'S RESPONSE:**

*Business owners expressed concerns regarding cracks that led to payments being held in abeyance until the situation was investigated. After the Winter period of freeze and thaw, it was determined that the cracks were superficial rather than structural. Second notices were sent out and collections are now being pursued.*

**5.****Taxi Service**

The city provides a taxi service which city officials indicate is intended primarily for the use of the elderly and disabled. The city charges 25 cents per person for a one-way trip, regardless of the distance. The taxi service has not been established by ordinance.

During the year ended June 30, 1999, revenues generated by the taxi service totaled only \$3,327 while operating expenses totaled \$26,102. This resulted in a \$22,775 operating loss which was subsidized by the Electric Fund, as discussed in MAR No. 2, and the General Fund. The operating loss is due largely to the minimal fees charged. In December 1999, the board reviewed the financial condition of the taxi service and voted to continue to charge only 25 cents per ride.

If the board considers this a desirable city-provided service, an ordinance should be adopted defining the rates and users. The board should continue to monitor the financial condition of the taxi service to ensure providing this service is in the best interest of the citizens.

**WE RECOMMEND** the Board of Aldermen continue to monitor the financial condition of the taxi service. If this is considered a desirable city-provided service, the board should adopt an ordinance defining the rates and users.

**AUDITEE'S RESPONSE:**

*The city taxi service continues to be provided as a public mandate as was evidenced by two lengthy discussions at board meetings in recent months. This service was established formally by ordinance adopted May 9, 2000 in accordance with the recommendation that both the use and a rate structure be defined.*

**6.****Building Code**

- A. The city passed a building code ordinance in 1969 establishing minimum building standards (foundation and structural) for the city and granting inspection authority to the City Building Inspector. However, procedures have not been established for the enforcement of the building codes. The Public Works Director stated that foundation and structural inspections are not performed. The city has also established minimum standards related to electrical, plumbing, and sewer work. The Public Works Director indicated inspections are performed to ensure compliance with these standards. However, no documentation is maintained of the inspections performed.

The city should review the building codes ordinances. If it is the city's desire to maintain these minimum building standards, procedures should be established for enforcement and documentation.

- B. Although the building codes ordinance refers to the position of Building Inspector, this position has not been established by ordinance. Currently, the Director of Public Works oversees building inspections. The city should establish the duties, compensation, and qualifications for the position of Building Inspector by ordinance.

**WE RECOMMEND** the Board of Aldermen:

- A. Review the building code and establish procedures for enforcement and documentation.
- B. Establish the position of Building Inspector by ordinance.

**AUDITEE'S RESPONSE:**

- A. *A complete revision of the zoning ordinance and subdivision regulations, including a building code update were intended to follow the completion of the Comprehensive Plan. To expedite this process, the Administrator is seeking proposals for presentation to the Board of Aldermen at its June 13 meeting.*
- B. *During the zoning code revision process the city will determine the need to create by ordinance a part-time or full-time Building Inspector, or a combined position of Building Inspector/Code Enforcement Officer, complete with duties, qualifications, and responsibilities.*

<b>7. City Contracts</b>
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- A. While it appears bids are solicited for the investment of some of the city's excess funds, the city does not periodically solicit bids for its depository banking services. The current Mayor serves on the board of the city's depository bank. In addition, the city does not have a written agreement with its depository bank.

To ensure the city is receiving competitive banking services and to avoid an actual or apparent conflict of interest, the city should periodically seek depository banking proposals from area banks. A written depository contract helps both the bank and the city understand and comply with the requirements of any banking arrangement.

- B. The city annually appoints a local attorney to serve as City Attorney. The same attorney has served in this position since 1974. At that time, the city entered into a written agreement with the attorney, defining the services to be rendered and compensation to be paid for legal services. The original contract has not been updated, and invoices are not sufficiently detailed to allow the city to determine the hourly rates billed by the attorney.

The city should enter into a current written agreement with the City Attorney and should require invoices to be sufficiently detailed.

Section 432.070, RSMo 1994, requires contracts for political subdivisions to be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

**WE RECOMMEND** the Board of Aldermen:

- A. Periodically seek proposals or competitively bid the city's depository banking services and enter into a written agreement with the depository bank.
- B. Enter into a current contract with the City Attorney and require invoices for legal services to be sufficiently detailed.

**AUDITEE'S RESPONSE:**

- A. *The City Administrator has been assembling information from various sources for depository banking services and proposes to solicit competitive proposals in the near future for such services, including municipal investments. A written agreement for a minimum period of three years is being considered. The city's mayor has, since assuming public office, excused himself from all involvement with municipal finance. This function is overseen by the city administrator and clerk with assistance from the treasurer and oversight by an independent audit firm.*
- B. *The city is pursuing a contract for legal services and now requires detailed invoices for services rendered. The city also requires a detailed itemization from its consulting engineer and for other professional services. The City Administrator is currently preparing bid specifications for comprehensive general liability and workers compensation insurance needs that will be advertised for competitive bid by May 17. If the possibility of lower group health insurance premiums presents itself in light of the city's loss experience, the city will consider competitive bid solicitation for this insurance coverage likewise.*

<b>8. Budgets and Financial Reporting</b>
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- A. The budgets prepared by the city for the years ended June 30, 2000 and 1999, did not comply with state law or were otherwise insufficient as follows:

1. Although the board minutes make general references that the annual budgets were adopted, the budgets are not retained with the official minutes and are not signed by the board to denote approval.
2. Budgets were not prepared for the DARE and Community Development Block Grants (CDBG) funds. Section 67.010, RSMo 1994, indicates the annual budget shall present a complete financial plan for the city.
3. The budgets did not reflect beginning and projected ending fund balances and did not include budget messages or general budget summaries, describing the important features of the budget and major changes from the preceding years.

Sections 67.010 through 67.040, RSMo 1994, set specific guidelines as to the format and approval of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A complete budget should include appropriate revenue and expenditure estimations by classification, and include beginning and estimated ending fund balances. To adequately document the board's approval, budgets should be signed or initialed by the board and retained with the official minutes.

- B. During the two years ended June 30, 1999 and 1998, expenditures of the General Fund exceeded budgeted amounts by \$105,812 and \$484,311, respectively. The city failed to adequately budget grant expenditures, land purchase, and capital expenditures.

Section 67.040, RSMo 1994, indicates a political subdivision shall not increase the total amount authorized for expenditure from any fund, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution or ordinance to authorize the expenditures. A similar comment was made by the city's auditor during their annual audit.

- C. The city recently submitted its annual financial reports to the State Auditor's Office for the first time since 1988. Section 105.145, RSMo 1994, requires political subdivisions to file a financial report with the State Auditor's Office annually.

**WE RECOMMEND** the Board of Aldermen:

- A. Sign or initial budgets and retain them with the official minutes. In addition, the board should ensure annual budgets include all relevant information required by state law.



- B. Periodically compare year-to-date expenditures with budgeted amounts to monitor the city finances and to ensure expenditures do not exceed budgeted amounts.
- C. Submit annual financial reports to the State Auditor's Office as required by state law.

**AUDITEE'S RESPONSE:**

- A. *The next fiscal budget will be prepared in accordance with statute by the City Administrator in accordance with generally accepted accounting practices, held open for public comment prior to adoption, executed and retained with the official minutes record of the city.*
- B. *The city has adopted the preparation of bimonthly financial reports for the purposes of monitoring income and expenses. With the adoption of the FY 2000-2001 budget, the city hopes to have in place a year-to-date report to further ensure that expenditures do not exceed budgeted amounts. The city concurs with the recommendation to document by resolution any need to increase budgeted expenditures subsequent to the adoption of the annual budget.*
- C. *The city began the submittal of its annual financial reports to the Office of State Auditor in 1999 and intends to continue this practice annually.*

<b>9. City Property Records</b>
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The city has not prepared and maintained permanent, detailed property records for general fixed assets, including the cost of land, buildings, equipment, and furniture owned by the city.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage.

To develop appropriate records and procedures for general fixed assets, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all fixed asset transactions and ensure the accuracy of the recorded fixed assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

**WE RECOMMEND** the Board of Aldermen establish property records for general fixed assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

**AUDITEE'S RESPONSE:**

*The city proposes to establish a property records system for all general fixed assets after the beginning of the 2000-2001 fiscal year and maintain a running inventory as recommended. Much of this information is found in insurance documentation, is now being updated in preparation of specifications for bid solicitation and admittedly needs to be more easily accessible and kept current.*

<b>10. Municipal Division</b>
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- A. Accounting duties are not adequately segregated. The Court Clerk performs all of the duties related to the collection and disbursement of fines, court costs, and bonds. Neither the Judge nor other personnel provide independent reviews of the work performed by the Court Clerk.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving, depositing, and transmitting court monies from recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliation between receipts, deposits, and transmittals and an independent review of bank statements and bank reconciliations.

- B. Receipt slips are not issued for some monies received. For example, the Court Clerk does not issue receipt slips to the county sheriff's department for cash bonds turned over to the court. To adequately account for all receipts, prenumbered receipt slips should be issued for all monies received.

Similar conditions were also noted in our prior audit report of the municipal court.

**WE AGAIN RECOMMEND** the city of Mount Vernon Municipal Division:

- A. Adequately segregate the accounting duties of the Court Clerk to the extent possible. At a minimum, there should be a documented independent review of the reconciliations between receipts and deposits and of bank statements and bank reconciliations.
- B. Issue prenumbered receipt slips for all monies received.

**AUDITEE'S RESPONSE:**

- A. *The city proposes a documented independent review of the reconciliations between receipts, deposits, transmittals and an independent review of bank statements and bank reconciliations by the city treasurer.*
- B. *The clerk has instituted the practice of issuing numbered receipts for all monies received.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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